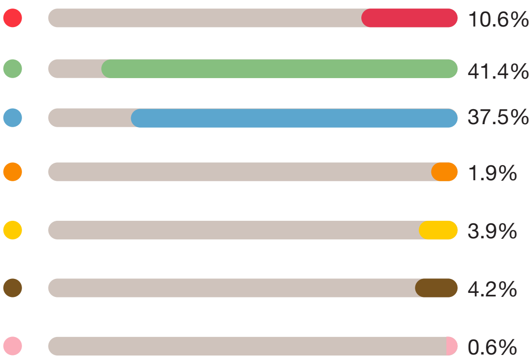
RICE

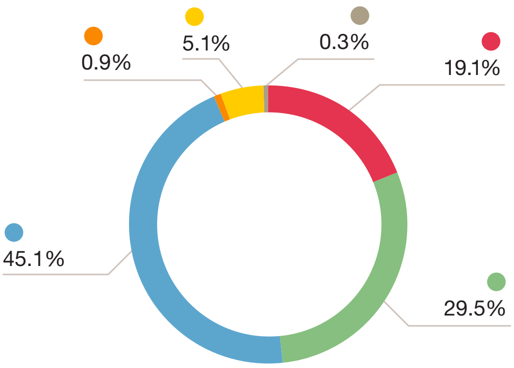


1,412.7 Mill€

NET SALES OF RICE DIVISION
BY GEOGRAPHICAL AREAS

161.9 Mill€

EBITDA OF RICE DIVISION
BY GEOGRAPHICAL AREAS



PROFIT AND LOSS	2016	2017	2017/2016	2018	2018/2017	CAGR 2018-2016
Net sales	1,283,853	1,345,026	4.8%	1,412,702	5.0%	4.9%
Advertising	(30,135)	(28,088)	(6.8%)	(26,969)	(4.0%)	(5.4%)
EBITDA	196,264	205,988	5.0%	162,065	(21.3%)	(9.1%)
EBIT	163,561	172,522	5.5%	123,989	(28.1%)	(12.9%)
Operating profit	169,240	174,027	2.8%	125,392	(27.9%)	(13.9%)
Capex	47,391	65,807	38.9%	64,583	(1.9%)	16.7%

From the point of view of rice purchases and prices, the year was divided into two clearly distinct parts marked by the new harvests: the upward trend that began towards the end of 2017 continued in the first half of 2018, while prices came down in the second half.

By geographical areas, in the European Union the year kicked off with prices rising under the threat of a drought in Spain, which was finally dispelled with a particularly wet spring, although this pushed up the purchase prices of carryover stock. After a few months of relative calm, the import tariffs on long-grain rice from Cambodia and Myanmar announced by the European Union at the end of the year have once again tightened the markets producing those varieties.

In the United States, the 17/18 harvest was significantly smaller than in previous years as a smaller area had been sown, leaving a smaller carryover stock than in the past five years. This pushed prices up at the end of 2017 and the higher prices prevailed until news on the sowing and harvesting of the 18/19 crop year (estimated at 23% more than in the previous year) eased supply tensions and prices came down in the last four months of 2018. Even so, the anticipation of a very small medium-grain rice harvest in Australia keeps the pressure on the prices of those varieties, which are mainly grown in California.

PRICES US CROP YEAR. AUGUST-JULY (SOURCE: USDA)

$/CWT	17/18 (*)	17/18	16/17	15/16	14/15
Average price	11.6-12.6	12.7	10.4	12.2	13.4
Long grain	10.2-11.2	11.5	9.64	11.2	11.9
Medium grain	16-17	16.2	12.9	15.3	18.3

(*) Estimated range

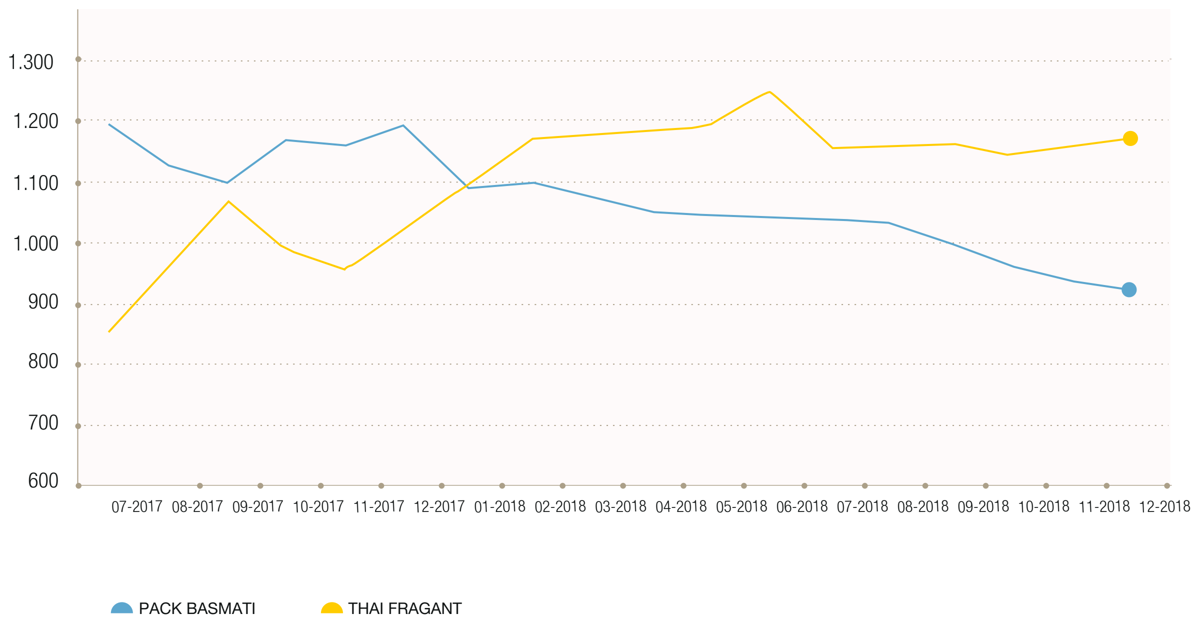
Other rice-growing regions of South East Asia that are very important for long-grain rice varieties (principal global exporters: India, Thailand, Vietnam, Cambodia, Pakistan and Myanmar) followed the general trend of the market: prices edged up at the beginning of the year and started coming down in the summer with generally abundant harvests.

With regard to aromatic rice varieties (basmati and Thai fragrant), whose performance has produced a significant impact on the Group earnings, the price hike in 2017 continued and even intensified to reach record levels of over 1,200 US$/t for fragrant rice varieties in June 2018, with growing demand while the areas sown remained stable.

Prices of basmati rice eased from the record highs at the beginning year, but the costs of purchase, analysis and traceability incurred in the wake of the EU restrictions on pesticides and fungicides have maintained the pressure on prices charged by growers.

The situation is shown very clearly in the following graph of export prices in US$:

EXPORT PRICE AROMATIC RICE VARIETIES (US$ / MT)



Strong growth was observed in the Division turnover, mainly due to the price rises consequential to the higher raw material prices in late-2017 early-2018, in spite of the adverse effect of exchange rate variations, quantified at €25 million (average rate of 1.18 vs 1.13 in previous year).

By geographical regions, sales made in the United States accounted for 40% of the rice division, the remaining sales being distributed among a large number of countries, mainly in the European Union.

With sales volumes in line with the previous year (growth in aromatic varieties and microwave cups and stagnant in instant rice varieties, which have been given less publicity), the evolution of sales in the United States (growth of US$ 14 million) was strongly affected by: (i) the rising prices of local long-grain rice towards the end of the previous year (up 10% on average, easing off with the new crop as from August) and imported fragrant rice varieties, and (ii) the rising costs of transport and auxiliary materials due to oil prices and the growth in domestic demand and business.

Several price rises were made to cope with this inflationary situation: (i) focusing on the aromatic varieties at the beginning of the year, as these price rises had been planned since the end of the previous year, and (ii) linked to the higher costs of logistics and auxiliary materials in the last part of the year, when the main players in the food sector were faced with the need to pass on these increased costs.

Although price tensions have favoured the positioning of private label brands, we maintained a market share of 23.5% in volume and 24.3% in value. The only sales that dropped in value were exports, which were hampered by the loss of competitiveness of American rice against rice from other sources.

In Europe, the Group maintained growth in most of its brands in a flat or falling market, with slight rebounds in value. The success of our microwave products, with double-digit growth, was behind the decision to undertake a major investment (€70m) to increase capacity, installing a large precooked foods plant at the former sugar factory in La Rinconada. This plant is expected to come on stream towards the end of 2020.

Division EBITDA was down 21.0% year on year, absorbing the negative impact of exchange rate variations in a sum of €3.5 million. The entire decline corresponds to our American business, which has endured an especially difficult year in respect of costs and supplies.

The main causes of this poor performance in our American business were:

1. Overall rise in rice prices, especially in aromatic varieties, in the last four months of 2017. The raw material costs rose by approximately US$ 20 million year on year. Although we had planned to raise the prices of our products in February, the magnitude of the sourcing costs meant that we were unable to pass it on fully to customers until the end of the year.

2. Rise in auxiliary material prices and logistics costs. Logistics costs rose by US$ 10 million on the back of fuel price hikes and increased demand for transport, which took transport costs to record levels in March and April. The costs of auxiliary packaging material (paper, cardboard, plastic, etc.) also shot up due to similar causes, producing an impact estimated at US$ 6 million.

3. The production disorders arising partly from the damage caused by Hurricane Harvey at our Freeport factory and partly from the shortage of manpower and huge labour turnover due to the situation of full employment and tough competition from the petrochemical industry for attracting skilled workers.

In an effort to offset these cost increases, we took several measures in respect of our selling prices, as mentioned earlier (selective increase of products and adjustment of channel marketing and promotion activities). We also put in place an integral plan to improve our supply chain and increase plant productivity, linked to processes already in progress for automation of packaging lines and adjusting production between plants. These actions started to bear fruit towards the end of the year with a slight pick-up in margins, which is expected to continue this year.

The contribution to EBITDA by our non-American business, by source, is as follows:

	2016	%	2017	%	2018	%
Spain	27,903	35.8%	28,382	32.6%	30,858	35.3%
Europe	40,261	51.6%	48,577	55.7%	46,302	53.0%
Others	9,845	12.6%	10,210	11.7%	10,142	11.6%
TOTAL EBITDA	78,009	100.0%	87,169	100.0%	87,302	100.0%

Year-on-year improvement in performance was strongest in Spain, with growth in industrial and retail channel sales volumes and smaller private label sales. In the retail channel, this growth was particularly strong in sales volumes of traditional microwave cups and those in the Benefit range. However, problems deriving from saturation, brought about by the growing demand and the need to meet orders from the United States, had a negative impact on margins.

The impact of higher prices of aromatic rice varieties also hit in the rest of Europe, although since the consumption of basmati is greater than that of fragrant varieties, the effects had already been largely felt in the previous year.

Finally, La Loma Alimentos, S.A., a company established in Argentina engaged in the production and sale of rice, was incorporated in the Group during 2018. The contribution by this company was minimal this year, since it was only incorporated in the last quarter, but it is expected to be an important element in our sourcing diversification strategy this year, with a major contribution as a specialist in organic rice.

The **Operating Profit** was in line with other margins, with a slight increase in the depreciation and amortisation charge linked to investments made in the past two years. It includes the proceeds from the sale of the SOS brand for use in Mexico and other countries in the region (€7 million), more or less on a par with the proceeds recognised in the previous year from the sale of land in Houston, and other fixed asset expenses similar in amount to those of 2017.

Investment in fixed assets remained at very high levels, especially in business lines with a high growth potential. The principal investments **(CAPEX)** made in this division correspond to (i) enhancements at the new frozen foods factory, (ii) modernisation of freezing systems, (iii) new pasta facilities, (v) completion of new storage facilities, (vi) enlargement of one of our logistics hubs, (vii) enlargement of production capacity for instant rice, and (viii) project for automation of our export packaging lines.